

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 ARAE-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 AGR-05 FEAE-00 INT-05 OES-03 /091 W

----- 129975

P R 251500Z FEB 76

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 4174

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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E.O. 11652: N/A

TAGS: ECON, BR

SUBJECT: PLANNING MINISTER VELLOSO ON BRAZILIAN ECONOMY

1. SUMMARY. PLANNING MINISTER REIS VELLOSO, IN A RECENT ADDRESS TO A BUSINESS GROUP, DEFENDED THE GEISEL ADMINISTRATION'S MACROECONOMIC POLICY, ITS EFFORTS TO GIVE MORE OPPORTUNITIES TO PRIVATE BRAZILIAN-OWNED BUSINESSES, AND ITS EFFORTS TO MODERNIZE AGRICULTURE AND TO BRING THE RURAL POOR INTO THE CONSUMER SOCIETY. HE CALLED FOR CONFIDENCE IN THE ECONOMY, GOVERNMENT, AND BUSINESS, NEEDED FOR THE SOCIAL AND ECONOMIC WORK OF THE REVOLUTION. IN WHAT WAS OBVIOUSLY A VERY POLITICAL SPEECH, VELLOSO SEEMED TO BE TRYING TO INSTILL CONFIDENCE IN THE LONG-TERM ECONOMIC AND SOCIAL PROSPECTS FOR THE COUNTRY AND IN THE GEISEL ADMINISTRATION'S POLICIES, AND TO CALM FEARS ABOUT THE IMPACT OF THE BALANCE-OF-PAYMENTS PROBLEM ON THESE PROSPECTS. END SUMMARY.

BEGIN UNCLASSIFIED

2. BLAMING THE "TURBULENCE" CAUSED BY "VERY HIGH OIL PRICES,"

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WHICH DID NOT PROVOKE A CRISIS OF THE CAPITALIST SYSTEM AS

MANY HAD PREDICTED, VELLOSO SAID, IN HIS FEB 12 ADDRESS IN RIO, THAT BRAZIL HAS BEEN EXPERIENCING ONE OF THE MOST PROFOUND STRUCTURAL

TRANSFORMATIONS IN THE PAST TWO DECADES. THE TRANSFORMATION INCLUDES AN EFFORT TO REACH ENERGY SELF-SUFFICIENCY AS SOON AS POSSIBLE; PRIORITIES TO CAPITAL GOODS AND BASIC INPUTS; IMPORT SUBSTITUTION OF COMPONENTS USED TO MAKE CONSUMER DURABLES AND EQUIPMENT; GREATER EMPHASIS ON AGRICULTURE, LIVESTOCK, MINERAL DEVELOPMENT, CONSTRUCTION, AND RAIL AND WATER TRANSPORT; AND THE SEARCH FOR NEW OPPORTUNITIES OF DEVELOPMENT IN VIEW OF THE ENERGY CRISIS AND THE DISCOVERY OF NEW NATURAL RESOURCES, E.G., PHOSPHATE, IRON ORE, BAUXITE, URANIUM, ELECTRIC POTENTIAL IN THE AMAZON. AT THIS TIME, HE SAID, NOTHING IS MORE PRESSING THAN THE BALANCE-OF-PAYMENTS (BOP) PROBLEM, BUT IT SHOULD NOT BECOME A "FIXATION". VELLOSO COMMENTED THAT BRAZIL'S TASK IS TO CONSTRUCT A NATION--AN ECONOMY WHICH WILL BRING NATIONAL DEVELOPMENT AND "GRANDEZA" (GREATNESS, GRANDEUR), AND A SOCIETY WHICH WILL GIVE MEANING TO ALL THIS. THIS NATION-BUILDING INCLUDES THE INTEGRATION OF THE POOR AREAS INTO NATIONAL SOCIETY AND THE CONTINUATION OF ECONOMIC AND SOCIAL REFORMS UNDERTAKEN BY THE REVOLUTION.

3. VELLOSO SUMMONED BRAZILIANS TO COURAGE AND SACRIFICE IN THE FACE OF DIFFICULTIES, AS EXEMPLIFIED BY THE SETTLING OF THE AMERICAN WEST RECOUNTED IN JAMES MICHENER'S "CENTENNIAL", VELLOSO ADDRESSED THREE AREAS OF BRAZILIAN PERFORMANCE AND GOVERNMENT ACTION:

--A) THE GOB SUCCESSFULLY STAVED OFF RECESSION AND UNEMPLOYMENT DURING THE PAST TWO YEARS OF THE OIL CRISIS, VELLOSO SAID, AND REASONABLE GROWTH IS EXPECTED IN 1976, WHICH STARTED WELL THANKS TO PRODUCTION AND SALES PERFORMANCE, ALTHOUGH INFLATION INDICES WERE NOT SO GOOD. HE SAID THE OIL CRISIS HAS NOT AFFECTED THE LONG-TERM DETERMINANT OF GROWTH--INVESTMENT OPPORTUNITIES, RESULTING FROM LAND AND NATURAL RESOURCES, HUMAN RESOURCES, THE MARKET, AND TECHNOLOGY; ON THE OTHER HAND, THESE FACTORS DO NOT SOLVE THE IMMEDIATE BOP PROBLEMS. VELLOSO CITED THE 4.2 PERCENT GDP GROWTH IN 1975, INCREASING LEVELS OF EMPLOYMENT AT YEAR-END, LIMITED OFFICIAL USE

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GOOD INDICES OF PROFITS, LIQUIDITY, INVESTMENTS, AND RETAIL SALES, "NORMAL" INFLOWS OF EXTERNAL RESOURCES IN 1975, AND YEAR-END FOREIGN EXCHANGE RESERVES ABOVE \$4 BILLION. THE 25 PERCENT DECLINE IN THE TRADE DEFICIT, HE SAID, WAS LESS THAN WHAT WAS DESIRED PRIMARILY BECAUSE OF FACTORS BEYOND BRAZIL'S CONTROL: DECLINING COMMODITY PRICES IN THE SECOND-HALF OF 1975 AND. IN GENERAL, THE 7 PERCENT DETERIORATION IN THE TERMS OF TRADE, WHICH FOLLOWED AN 11 PERCENT DECLINE

IN 1974. VELLOSO SUMMARIZED THE GOB'S PLANNED EFFORTS TO IMPROVE THE TRADE BALANCE IN 1975, INCLUDING THE 25 PERCENT CUT IN GOVERNMENT IMPORTS AND EMPHASIS ON EXPORTS AND IMPORT SUBSTITUTION.

--B) CITING THE NEED TO CREATE A BRAZILIAN MODEL OF INDUSTRIAL CAPITALISM, VELLOSO REAFFIRMED THE GEISEL ADMINISTRATION'S COMMITMENT TO NATIONAL ENTERPRISE (I.E., PRIVATE, BRAZILIAN-OWNED FIRMS), INCLUDING THE PRIORITY SECTORS. HE POINTED TO ASSISTANCE TO NATIONAL FIRMS THROUGH BETTER ACCESS TO CAPITAL, GREATER INCENTIVES, AND THE REDUCTION OF RISKS TO NATIONAL FIRMS TO ENABLE THEM TO FILL THE "EMPTY SPACES" IN THE ECONOMY, AS ENVISIONED IN THE SECOND NATIONAL DEVELOPMENT PLAN. FOR INSTANCE, THE NATIONAL DEVELOPMENT BANK IS GIVING SUPPORT TO "TENS OF PROJECTS" UNDER NATIONAL CONTROL IN THE \$100-500 MILLION RANGE. TO "DENATIONALIZE" THE ECONOMY (I.E., REDUCE THE RELATIVE ROLE OF STATE-OWNED FIRMS), VELLOSO NOTED THE GEISEL ADMINISTRATION HAS RULED THAT STATE-OWNED FIRMS NOW MUST PAY INCOME TAX, AND THESE FIRMS WILL NEED PRESIDENTIAL PERMISSION TO CREATE NEW SUBSIDIARIES OR TO EXPAND INTO NEW FIELDS OF ACTIVITIES.

--C) THIRDLY, VELLOSO PROMISED THAT THE GOVERNMENT WOULD USE INSTRUMENTS UNDER ITS CONTROL--MINIMUM PRICES, CREDIT, ACCESS TO MODERN INPUTS, RESEARCH AND TECHNOLOGY--TO MODERNIZE AGRICULTURE IN THE POORER RURAL AREAS, THUS BRINGING AFFECTED WORKERS AND FARMERS INTO THE "CONSUMER SOCIETY," I.E., LABOR LAWS, SOCIAL WELFARE PROGRAMS, MONETARY WAGES. HE STRESSED THE GOVERNMENT'S DESIRE TO REACH THE SMALL PRODUCERS DIRECTLY.

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STR-04 CEA-01 AGR-05 FEAE-00 INT-05 OES-03 /091 W

----- 001405

P R 251500Z FEB 76
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC PRIORITY 4175
INFO AMCONSUL RIO DE JANEIRO
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4. POINTING TO ECONOMIC ACCOMPLISHMENTS IN 1975, INCLUDING A 27 PERCENT RATE OF GROSS INVESTMENT (UP FROM 21.6 PERCENT IN 1973 AND 25 PERCENT IN 1974) VELLOSO ASSERTED THAT THE GOVERNMENT'S ECONOMIC POLICIES ARE DESIGNED TO MAKE BRAZIL MORE SELF-SUFFICIENT AND TO OPEN NEW EXPORT MARKETS. THIS ATTITUDE OF "OPEN WINDOWS" TO THE WORLD AND THE FUTURE OUGHT TO BE MAINTAINED, VELLOSO REMARKED. ALL REVOLUTIONS, UNTIL TODAY, HE COMMENTED, HAVE BEEN CARRIED OUT WITH AN ETHICAL MOTIVATION APPEALING TO SOCIAL JUSTICE. THE PERSISTENCE OF THE MARKET ECONOMY, HE SAID, WAS DUE TO THE LONG RUN CONVERGENCE OF THE ECONOMIC OBJECTIVE WITH THE SOCIAL, AND IT IS NECESSARY TO CONCILIATE ANY SHORT-RUN CONFLICTS BETWEEN THE GOALS WITH GOOD SENSE AND IMAGINATION. THE REVOLUTION, PARTICULARLY THE CURRENT GOVERNMENT, VELLOSO ASSERTED, HAS BEEN DESIGNING A MARKET ECONOMY WITH A STRONG SOCIAL CONTENT, E.G., A RESPONSIBLE WAGE POLICY, A FOOD AND NUTRITION PROGRAM WHICH WILL BE BENEFITTING 15 MILLION PERSONS BY THE END OF THE DECADE, AND OTHER INSTRUMENTS OF SOCIAL ACTION THAT PRESERVE GROWTH. VELLOSO DESCRIBED PRESIDENT GEISEL'S DECISION-MAKING APPARATUS, GIVING EMPHASIS TO THE SOCIAL AND ECONOMIC DEVELOPMENT
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COUNCILS. IN CONCLUSION HE SAID THAT GEISEL'S ATTITUDE OF "POSITIVE REALISM" PUTS PROBLEMS IN PERSPECTIVE, AND THAT CONFIDENCE IN THE ECONOMY, THE GOVERNMENT, AND BUSINESS IS NECESSARY TO CARRY OUT THE ECONOMIC AND SOCIAL WORK OF THE REVOLUTION, INCLUDING GIVING OPPORTUNITY TO THE COMMON MAN. END UNCLASSIFIED.

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5. COMMENT: VELLOSO'S ADDRESS SEEMS TO HAVE HAD TWO PRIMARY OBJECTIVES: (A) TO BOOS INVESTOR, CONSUMER, AND VOTER CONFIDENCE BY ARGUING THAT BRAZIL'S LONG-TERM ECONOMIC PROSPECTS ARE GOOD DESPITE THE CURRENT BOP PROBLEMS, AND (B) TO SHOW THAT THE REVOLUTION, AND ESPECIALLY THE GEISEL ADMINISTRATION, IS RESPONSIVE TO THE NEED TO CORRECT TWO INCREASINGLY CRITICISED SIDE-EFFECTS OF THE "BRAZILIAN ECONOMIC MODEL"--THAT STATE-OWNED BUSINESSES (WHICH ACCOUNT FOR HALF OF ALL BRAZILIAN INVESTMENT) ARE

SQUEEZING OUT NATIONAL FIRMS, WHICH LACK ACCESS TO CAPITAL NEEDED FOR INVESTMENTS IN THE CAPITAL-INTENSIVE PRIORITY SECTORS, AND THAT THE RURAL POOR SEEM TO HAVE BEEN LEFT OUTSIDE THE MONEY ECONOMY. THESE TWO CRITICISM ARE OF SPECIAL CONCERN TO THE GEISEL ADMINISTRATION, WE BELIEVE, BECAUSE OF THEIR POLITICAL IMPACT--THE REVOLUTION NEEDS THE SUPPORT OF BUSINESSMEN, AND IT NEEDS TO SHOW THAT THE POORER ARE ALSO SHARING IN RISING NATIONAL INCOME AND IN IMPROVED SOCIAL PROGRAMS. AS VELLOSO CORRECTLY POINTS OUT, THE GEISEL ADMINISTRATION HAS TAKEN IMPORTANT STEPS IN BOTH OF THESE AREAS. WITH ARENA'S PROSPECTS NOT LOOKING BRIGHT, IT IS QUITE POSSIBLE THE ADMINISTRATION WILL TAKE EVEN FURTHER STEPS AS THE ELECTION YEAR UNFOLDS. ONE POSSIBILITY MIGHT BE A TAX CUT, AN IDEA ADVANCED BY ARENA'S LEADER IN THE SENATE WHICH RECEIVED A NONCOMMITALLY POSITIVE PUBLIC REACTION FROM FINANCE MINISTER SIMONSEN. BUT, AND THIS GETS TO VELLOSO'S EMPHASIS ON CONFIDENCE, WHAT THE ADMINISTRATION CAN AFFORD TO DO WILL BE CONDITIONED GREATLY ON THE STRENGTH OF THE ECONOMY, WHICH IN TURN DEPENDS ON INVESTOR AND CONSUMER CONFIDENCE. THUS VELLOSO AND OTHER MINISTERS ARE ACCENTING THE NEED FOR SUCH CONFIDENCE, ALTHOUGH IT SEEMS TO US THAT THEY THEMSELVES ARE NOT WHOLLY CONFIDENT OF THEIR POLICIES, LIMITED OFFICIAL USE

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ESPECIALLY THE IMPORT RESTRICTIONS PROGRAM WHICH HAS DONE SO MUCH TO SPREAD PESSIMISM AND CONFUSE EXPECTATIONS ABOUT WHAT LIES AHEAD. IN MID-FEBRUARY, HOWEVER, VELLOSO AND OTHER MINISTERS ARE SLIGHTLY MORE OPTIMISTIC THAN AT YEAR-END BECAUSE RECENT STATISTICS HAVE SHOWN THAT THE ECONOMY MAINTAINED MOMENTUM INTO 1976. CRIMMINS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, SPEECHES, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 25 FEB 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: KelleyW0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976BRASIL01696
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760071-0069
From: BRASILIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760216/aaaaanjb.tel
Line Count: 259
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: KelleyW0
Review Comment: n/a
Review Content Flags:
Review Date: 15 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15 JUL 2004 by SmithRJ>; APPROVED <21 OCT 2004 by KelleyW0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PLANNING MINISTER VELLOSO ON BRAZILIAN ECONOMY
TAGS: ECON, BR, (REIS VELLOSO, JOAO PAULO DOS)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006